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UNCLAS SECTION 01 OF 02 LILONGWE 001072

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SUBJECT: BUNGLED WAGE REFORMS CAUSE LABOR PROBLEMS

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SUMMARY  
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1. (SBU) Government wage reforms that took effect in October have produced some unrest among civil servants. Hospital workers briefly struck in Lilongwe early this month, and teachers are threatening to strike in Blantyre. The problems center on miscalculations in a consolidated pay packaged designed to rationalize a complex structure of allowances. While the situation will likely be resolved soon, the GOM has little room for more mistakes.

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WELL-INTENTIONED REFORMS CAUSE STRIKES  
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2. (U) Civil service workers in health and education have been protesting over the last two weeks against the effects of civil service wage reforms passed in September. Health workers at Lilongwe's Kamuzu Hospital went on strike for a few days at the beginning of November, and teachers in Blantyre are threatening to strike if the issue is not resolved in the next month. The crux of the issue is that the reform package resulted in a net decrease in take-home pay for workers receiving special professional allowances.

3. (U) The reforms were a World Bank and International Monetary Fund structural objective, aimed at addressing huge pay disparities between different levels of the civil service, as well as containing a runaway structure of allowances. Years of political tinkering under the previous administration had created a grossly lopsided pay structure, with the lower rungs of the scale among the worst-paid in Africa, and the top rungs significantly higher than regional norms. For example, a promotion from the senior-most mid-level rank to the lowest senior-level rank involved a pay increase of roughly 500 percent. The pay package raised salaries between 25 and 80 percent, weighted toward the lower grades.

4. (U) The other issue was the allowance structure, under which higher-ranking employees enjoyed substantial tax-free income from allowances for fuel, housing, food, and professional incentives (often amounting to over half of employees' gross income). Allowances had steadily increased over the past decade, becoming more top-heavy and less standard among different ministries over time. The reforms attempted to clump all compensation as taxable pay, paving the way for greater regularity across the government and facilitating future adjustments. While the change increased the gross cost of government salaries, the added revenue from a higher taxable base partially offset the increase.

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WHAT DO YOU MEAN, LESS PAY?  
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5. (SBU) Unhappily, the Ministry of Finance miscalculated several pieces of the package, forgetting to include professional allowances for health workers and teachers in the base pay computations, and miscalculating the net effect of taxing the entire package. The result: lower net pay for many mid-level civil servants. After health workers walked out at the capital city's main hospital, GOM officials reinstated the professional and housing allowances, and hospital staff returned to work. Now teachers are threatening to walk out over the same issue, but have held off on the strength of promises to restore the allowances, at least pending a final resolution.

6. (U) Minister of Finance Goodall Gondwe has admitted the error publicly, and Ministry officials are busy re-vetting

pay calculations. In a recent briefing, Gondwe described this sort of problem as "normal" based on his experience at the International Monetary Fund (IMF). He expects to have resolved the last of the problems by year end, with little effect on the budget.

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COMMENT: MORE MISTAKES, MORE PRESSURE  
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17. (SBU) The magnitude of the pay reform problems are another indicator of a lack of wherewithal at the Ministry of Finance. As the recent budget exercise showed, the Ministry often gets the details wrong even as they deal successfully with a massive change in fiscal direction. Though rationalizing government salaries is crucial to getting fiscal policy under control, the risk attached to fumbling the reforms is great. Though organized labor is generally weak in Malawi, government has perhaps the best-organized workforce in the country, and it might be able to force expensive concessions if it feels sufficiently threatened. So far, this qualifies as a minor dispute, more embarrassing than damaging. But with no room in the budget for mistakes, and with Malawi's fiscal resolve under an IMF microscope, Government can ill afford anything approaching a serious labor dispute.

GILMOUR